

CAMICO Mutual Insurance Company

Statutory Financial Statements and
Independent Auditor's Report

December 31, 2016 and 2015

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
Statutory Financial Statements:	
Statutory Statements of Admitted Assets, Liabilities, and Policyholders' Surplus	3
Statutory Statements of Operations	4
Statutory Statements of Changes in Policyholders' Surplus	5
Statutory Statements of Cash Flow	6
Notes to Statutory Financial Statements	7
Supplementary Information:	
Summary Investment Schedule	30
Supplemental Investment Risk Interrogatories	31
Supplemental Reinsurance Interrogatories	34

Independent Auditor's Report

To the Board of Directors
CAMICO Mutual Insurance Company

We have audited the accompanying statutory financial statements of CAMICO Mutual Insurance Company (the Company), which comprise the statutory statements of admitted assets, liabilities, and policyholders' surplus as of December 31, 2016, and the related statutory statements of operations, changes in policyholders' surplus, and cash flow for the year then ended, and the related notes to the statutory financial statements.

Management's Responsibility for the Statutory Financial Statements

Management is responsible for the preparation and fair presentation of these statutory financial statements in accordance with accounting practices prescribed or permitted by the California Department of Insurance. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of statutory financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these statutory financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the statutory financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statutory financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the statutory financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statutory financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the statutory financial statements, the statutory financial statements are prepared by the Company on the basis of accounting practices prescribed or permitted by the California Department of Insurance, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the statutory financial statements of the variances between the statutory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the statutory financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2016, or the results of its operations or its cash flows for the year then ended.

Opinion on Statutory Basis of Accounting

In our opinion, the statutory financial statements referred to above present fairly, the financial position of the Company as of December 31, 2016, and the results of its operations and its cash flow for the year then ended in accordance with accounting practices prescribed or permitted by the California Department of Insurance.

Prior Period Statutory Financial Statements

The statutory financial statements of the Company as of December 31, 2015 were audited by other auditors whose report, dated March 23, 2016, expressed an adverse opinion as to the conformity of those statutory financial statements with accounting principles generally accepted in the United States of America and an unmodified opinion as to the conformity of those statutory financial statements with accounting practices prescribed or permitted by the California Department of Insurance.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic statutory financial statements taken as a whole. The summary investment schedule, the supplemental investment risk interrogatories, and the supplemental reinsurance interrogatories on pages 30 to 35 are not a required part of the basic statutory financial statements but are supplementary information required by the National Association of Insurance Commissioners’ *Accounting Practices and Procedures Manual*. Such information has been subjected to the auditing procedures applied in the audit of the basic statutory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory financial statements or to the statutory financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic statutory financial statements taken as a whole.

JLK Rosenberger, LLP

Glendale, California
March 22, 2017

CAMICO MUTUAL INSURANCE COMPANY

Statutory Statements of Admitted Assets, Liabilities, and Policyholders' Surplus As of December 31, 2016 and 2015

	2016	2015
	<i>(In Thousands)</i>	
Admitted Assets		
Investments:		
Bonds	\$ 74,859	\$ 71,928
Common stocks	1,285	1,302
Other invested assets	970	989
Cash and short-term investments	914	140
Total cash and invested assets	78,028	74,359
Accrued investment income	471	465
Premiums receivable	4,379	4,554
Reinsurance recoverable	1,106	1,278
Deferred tax asset, net	4,784	5,116
Federal income tax recoverable	29	35
Other assets	2,128	1,439
Total admitted assets	\$ 90,925	\$ 87,246
Liabilities and Policyholders' Surplus		
Liabilities:		
Reserves for losses	\$ 18,261	\$ 15,179
Reserves for loss adjustment expenses	14,662	13,631
Unearned premiums	10,658	10,794
Advance premiums	3,957	3,674
Accounts payable and accrued expenses	777	1,632
Ceded reinsurance premiums payable	(2,286)	(2,811)
Other liabilities	4,714	4,849
Total liabilities	50,743	46,948
Policyholders' surplus:		
Surplus notes	10,000	10,000
Unassigned surplus	30,182	30,298
Total policyholders' surplus	40,182	40,298
Total liabilities and policyholders' surplus	\$ 90,925	\$ 87,246

See accompanying notes to statutory financial statements.

CAMICO MUTUAL INSURANCE COMPANY

Statutory Statements of Operations For the Years Ended December 31, 2016 and 2015

	2016	2015
	<i>(In Thousands)</i>	
Underwriting income:		
Net premiums earned	\$ 30,941	\$ 30,169
Losses incurred	8,231	7,550
Loss adjustment expenses incurred	13,006	11,965
Other underwriting expenses incurred	9,532	10,038
Net underwriting income	172	616
Net investment income	907	936
Net realized capital gains	166	107
Income before dividends to policyholders and federal income taxes	1,245	1,659
Federal income tax expense	-	-
Net income	\$ 1,245	\$ 1,659

See accompanying notes to statutory financial statements.

CAMICO MUTUAL INSURANCE COMPANY

Statutory Statements of Changes in Policyholders' Surplus For the Years Ended December 31, 2016 and 2015

	Surplus Notes	Unassigned Surplus <i>(In Thousands)</i>	Total
Balance at January 1, 2015	\$ 10,000	\$ 29,192	\$ 39,192
Net income	-	1,659	1,659
Change in:			
Net unrealized capital loss	-	(728)	(728)
Nonadmitted assets	-	789	789
Net deferred taxes	-	(603)	(603)
Other surplus adjustments	-	(11)	(11)
Balance at December 31, 2015	10,000	30,298	40,298
Net income	-	1,245	1,245
Change in:			
Net unrealized capital loss	-	(1,118)	(1,118)
Nonadmitted assets	-	172	172
Net deferred taxes	-	(420)	(420)
Other surplus adjustments	-	5	5
Balance at December 31, 2016	\$ 10,000	\$ 30,182	\$ 40,182

See accompanying notes to statutory financial statements.

CAMICO MUTUAL INSURANCE COMPANY

Statutory Statements of Cash Flow For the Years Ended December 31, 2016 and 2015

	2016	2015
	<i>(In Thousands)</i>	
Cash flow from operating activities:		
Underwriting activities:		
Premiums collected, net of reinsurance	\$ 31,782	\$ 25,696
Losses and loss adjustment expenses paid, net of reinsurance	(16,952)	(22,354)
Underwriting expenses paid	(9,751)	(8,664)
Net cash provided by (used in) underwriting activities	5,079	(5,322)
Investment income, net	1,442	1,585
Net cash provided by (used in) operating activities	6,521	(3,737)
Cash flow from investing activities:		
Purchase of bonds	(19,626)	(17,943)
Purchase of common stocks	(103)	-
Purchase of other invested assets	-	(1,000)
Additional contribution to subsidiary	(1,000)	(1,000)
Sale and maturity of bonds	16,342	17,977
Net cash used in investing activities	(4,387)	(1,966)
Cash flow from financing activities:		
Other	(1,360)	1,003
Net cash (used in) provided by financing activities	(1,360)	1,003
Net change in cash and short-term investments	774	(4,700)
Cash and short-term investments at beginning of year	140	4,840
Cash and short-term investments at end of year	\$ 914	\$ 140

See accompanying notes to statutory financial statements.

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements
December 31, 2016 and 2015
(Dollars in Thousands)

1. Summary of Significant Accounting Policies

Nature of Operations and Organization

CAMICO Mutual Insurance Company (the Company or CAMICO) offers professional liability and Employment Practices Liability Insurance (EPLI) to certified public accountants on a claims-made basis. In addition, the Company offers first party cyber liability coverage as an endorsement to its professional liability policies. Claims for cyber liability coverage are managed by a third party administrator, NAS Insurance Services. CAMICO specializes in insuring certified public accounting (CPA) practices with limited or no Securities and Exchange Commission engagements, initial public offerings, or large company audit work. The Company is licensed to write professional liability insurance and EPLI in 45 states and Washington, D.C. For the years ended December 31, 2016 and 2015, the Company's California business represented 49% and 48%, respectively, of its total premiums written.

The Company has a wholly owned subsidiary, CAMICO Services, Inc. (CSI), dba CAMICO Insurance Services, which operates as an agent intermediary, providing insurance products for CPA firms underwritten by other insurance companies. The Company operates under a cost sharing agreement with CSI.

CSI also operates as a managing general agent (MGA), placing professional liability coverage with policy limits over \$2 million and providing program administration and claims management services. In 2014, CSI entered into an agreement with Berkley Alliance Managers (BAM), an operating unit of Berkley Insurance Company, to provide MGA services.

In October 2015, CAMICO's Board of Directors authorized additional capital contributions of \$2,000 to CSI to support ongoing business operations. CAMICO made a \$1,000 cash contribution to CSI in October 2015 and the remaining \$1,000 was made in 2016.

Basis of Presentation

The accompanying statutory financial statements of the Company have been prepared in conformity with accounting practices prescribed or permitted by the California Department of Insurance. California has adopted the National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures Manual* (Statutory Accounting Principles).

These financial statements are not intended to present financial position, results of operations, or cash flow in conformity with U.S. generally accepted accounting principles (GAAP). Statutory Accounting Principles vary in some respects from GAAP, the more significant of these differences being:

- Premium income is taken into earnings over the periods covered by the policies, whereas the related acquisition and commission costs are expensed when incurred.
- Assets must be included in the statutory statements of admitted assets, liabilities, and policyholders' surplus at "admitted asset value" and "nonadmitted assets" are excluded through a direct charge to policyholders' surplus.
- Investments in marketable securities are not designated as available for sale, held to maturity, or trading, and investments in bonds are carried at amortized cost, regardless of the Company's intent or ability to hold them to maturity.

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued)
December 31, 2016 and 2015
(Dollars in Thousands)

1. Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

- Majority-owned and controlled subsidiaries are not consolidated for individual entity statutory reporting. Investments in subsidiaries are accounted for under the statutory equity method and the Company's share of earnings and losses of the subsidiary are included in unrealized gains and losses credited or charged to policyholders' surplus.
- The criteria for realization of deferred tax assets are not consistent with GAAP and deferred tax assets are recognized through a direct charge to surplus.
- Ceded reserves recoverable from reinsurers for losses and loss adjustment expenses are reflected as reductions to the related direct reserves rather than as assets.
- Policyholder dividends are recognized when declared.
- Surplus notes are reported as policyholders' surplus rather than as liabilities.
- A statement of comprehensive income is not provided.
- Cash flow presentation is not consistent with GAAP and a reconciliation of the net gain or loss from operations is not provided.

Estimates

The preparation of statutory financial statements in conformity with accounting practices prescribed or permitted by the California Department of Insurance requires management to make estimates and assumptions that affect the reported amounts of admitted assets and liabilities and disclosure of contingent assets and liabilities at the date of the statutory financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Investments

Investments in bonds, including loan-backed securities, are reported at amortized cost, adjusted for amortization of premiums or discounts and other-than-temporary declines in fair value. Amortization is calculated using the scientific interest method over the period to call or maturity. Loan-backed securities are valued using the retrospective adjustment method. Prepayment assumptions on loan-backed securities were determined based on information obtained from the investment custodian. Bonds with an NAIC designation of 3 or greater (less than investment grade) are reported at the lower of amortized cost or fair value.

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued)
December 31, 2016 and 2015
(Dollars in Thousands)

1. Summary of Significant Accounting Policies (Continued)

Investments (Continued)

Investments in equity securities are generally reported at fair value, adjusted for other-than-temporary declines in fair value, in accordance with the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (IAO), with unrealized gains and losses, net of tax, recorded as a direct credit or charge to surplus.

Investments in common stock of affiliates are valued according to the statutory equity method of accounting. The Company's initial investment is recorded at cost and adjusted for the Company's share of statutory basis earnings, losses, and other changes in surplus. The Company's share of earnings, losses, and other changes in surplus are included in unrealized gains and losses as a direct credit or charge to surplus.

Realized gains and losses on bonds and equity securities are reported in the accompanying statutory statements of operations, based on the specific identification method.

Fair Value Measurements

Statutory accounting principles establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). Accordingly, when market observable data is not readily available, the Company's own assumptions are set to reflect those that market participants would be presumed to use in pricing the asset or liability at the measurement date. Financial assets and financial liabilities recorded in the balance sheets at fair value are categorized based on the reliability of inputs to the valuation techniques as follows:

Level 1 - Financial assets and financial liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in active markets that the Company can access.

Level 2 - Financial assets and financial liabilities whose values are based on (a) quoted prices for similar assets or liabilities in active markets, (b) quoted prices for identical or similar assets or liabilities in non-active markets, or (c) valuation models whose inputs are observable, directly or indirectly, for substantially the full term of the asset or liability.

Level 3 - Financial assets and financial liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect the Company's estimates of the assumptions that market participants would use in valuing the financial assets and financial liabilities.

The Company uses prices and inputs that are current as of the measurement date, including during periods of market disruption. In periods of market disruption, the ability to observe prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or from Level 2 to Level 3.

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued)
December 31, 2016 and 2015
(Dollars in Thousands)

1. Summary of Significant Accounting Policies (Continued)

Cash and Short-Term Investments

Included with cash are demand deposits with maturity dates within one year or less from the acquisition dates and exempt money markets as defined in the *Purposes and Procedures Manual of the NAIC IAO*.

Short-term investments consist of investments with remaining maturities of one year or less at the time of acquisition. Short-term investments are accounted for in the same manner as similar long-term investments.

Premium Recognition

Premiums are recognized as earned on a daily pro-rata basis over the policy term. Unearned premiums are provided for the unexpired portion of the policy term.

A provision for “free” extended reporting endorsement coverage for certain policyholders due to death, disability, or retirement (DD&R) has also been recorded as unearned premiums. These premiums are earned as the estimate for required DD&R unearned premiums is revised. The Company recorded related estimated unearned premiums of \$316 and \$273 as of December 31, 2016 and 2015, respectively, for this coverage, and \$43 and \$60 were recognized as earned premiums for the years ended December 31, 2016 and 2015, respectively. The unearned premiums reflect the Company’s best estimate of the future DD&R benefits.

For uncollected premiums receivable, after the calculation of nonadmitted amounts, an evaluation is made of the remaining admitted assets to determine if there is an impairment, and an allowance is established.

Premium Deficiency Reserves

Premium deficiency reserves are established for the amount of the anticipated losses, loss adjustment expenses, commissions, and other acquisition and maintenance costs that have not previously been expensed in excess of the recorded unearned premium reserve on existing policies. The Company utilizes anticipated investment income as a factor in determining whether a premium deficiency reserve is required. There were no premium deficiency reserves at December 31, 2016 and 2015.

Reinsurance

Reinsurance premiums, commissions, and reserves related to reinsured business are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums ceded to other companies have been reported as a reduction of premiums earned. Amounts applicable to reinsurance ceded for unearned premiums and estimated reserves for losses and loss adjustment expenses have been reported as reductions of these items.

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued)
December 31, 2016 and 2015
(Dollars in Thousands)

1. Summary of Significant Accounting Policies (Continued)

Reserves for Losses and Loss Adjustment Expenses (LAE)

Reserves for losses and LAE are based on case-basis estimates for reported claims and on estimates that are actuarially determined for incurred but not yet reported losses and loss adjustment expenses based on experience, estimates of future rates of inflation, industry data, and other factors. Reinsurance assumed and ceded is considered in such estimates. Adjustments to loss and LAE reserves are charged or credited to expense in the period in which they become known. Salvage and subrogation recoverables are estimated using the “case-basis” method.

Management believes that the liability for losses and LAE is adequate to cover the ultimate net cost of claims and the related adjustment expenses incurred to date. Amounts recorded for loss and LAE, however, are necessarily based on estimates, and accordingly, there can be no assurance that the ultimate liability will not exceed such estimates.

Electronic Data Processing Equipment, Furniture, and Other

The admitted value of the Company’s electronic data processing (EDP) equipment and operating software is limited to 3% of capital and surplus and reported net of accumulated depreciation. EDP equipment, operating software, and nonoperating software are depreciated using the straight-line method over the lesser of their useful lives or three years. Other furniture and equipment are depreciated using the straight-line method over five to seven years.

Leasehold improvements are carried at cost less accumulated amortization. The Company provides for the amortization of leasehold improvements using the straight-line method over the lesser of the useful life of the asset or the remaining original lease term, excluding options or renewal periods.

Depreciation and amortization expenses charged to operations in 2016 and 2015 were \$294 and \$230, respectively.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the statutory financial statements and consist of taxes currently due.

Deferred taxes are recognized, through a direct charge or credit to surplus, for temporary differences arising between the bases of certain assets and liabilities for tax reporting and their amounts reported in the accompanying statutory financial statements. Deferred taxes represent the future tax return consequences of those differences, which will be taxable when the assets and liabilities are recovered or settled. Deferred taxes are nonadmitted for the portion in excess of the amount that can be recovered from application of loss carrybacks and the lesser of (a) the amount of deferred tax assets expected to be realized in three years from the balance sheet date or (b) fifteen percent of policyholders’ surplus as reported in the Company’s statutory statements of assets, liabilities, and policyholders’ surplus as of December 31, after certain adjustments and consideration of any deferred tax liabilities.

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued)
December 31, 2016 and 2015
(Dollars in Thousands)

2. Investments

Bonds

The following is the admitted value and the fair value of the Company's bonds as of December 31:

	Admitted Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
2016				
U.S. Government and agency obligations	\$ 7,249	\$ 3	\$ (5)	\$ 7,247
All other governments States, territories, and possessions	78	2	-	80
Corporate securities	7,619	40	(47)	7,612
Mortgage and asset-backed securities	37,893	150	(207)	37,836
	22,020	117	(249)	21,888
Total	\$ 74,859	\$ 312	\$ (508)	\$ 74,663
2015				
U.S. Government and agency obligations	\$ 7,250	\$ -	\$ (28)	\$ 7,222
All other governments States, territories, and possessions	78	1	-	79
Corporate securities	7,146	48	(22)	7,172
Mortgage and asset-backed securities	35,940	90	(372)	35,658
	21,514	102	(261)	21,355
Total	\$ 71,928	\$ 241	\$ (683)	\$ 71,486

The estimated fair value of bonds is derived from market prices published by the NAIC IAO. In the absence of IAO published market values, quoted market prices by other third party organizations are used as the basis for determining fair value.

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued)
December 31, 2016 and 2015
(Dollars in Thousands)

2. Investments (Continued)

Bonds (Continued)

The admitted value and fair value of bonds at December 31, 2016 by expected maturity are shown below. Expected maturities may differ from contractual maturities as borrowers may have the right to call or repay their obligations with or without call or prepayment penalties.

	Admitted Value	Estimated Fair Value
Due in one year or less	\$ 10,071	\$ 10,072
Due after one year through five years	42,272	42,265
Due after five years through ten years	7,413	7,336
Due after ten years	15,103	14,990
Total	\$ 74,859	\$ 74,663

At December 31, 2016, the Company held 12 securities with an NAIC rating of 3 or higher, less than investment grade, with an admitted value and fair value of \$1,431 and \$1,459, respectively.

Common Stocks

Unrealized investment gains (losses) for common stocks as of December 31 are as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
2016				
Common stocks - unaffiliated	\$ 103	\$ -	\$ (2)	\$ 101
Common stocks - affiliated	4,810	-	(3,626)	1,184
Total	\$ 4,913	\$ -	\$ (3,628)	\$ 1,285
2015				
Common stocks - affiliated	\$ 3,810	\$ -	\$ (2,508)	\$ 1,302

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued)

December 31, 2016 and 2015

(Dollars in Thousands)

2. Investments (Continued)

Other-than-Temporary Impairment Analysis

The gross unrealized losses and estimated fair values on investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31 are as follows:

	12 Months or Greater		Less than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2016				
Bonds:				
U.S. Government and agency obligations States, territories, and possessions	\$ -	\$ -	\$ 2,896	\$ (5)
Corporate securities	-	-	3,488	(47)
Mortgage and asset-backed securities	598	(3)	17,398	(204)
	2,432	(17)	12,300	(232)
Total bonds	3,030	(20)	36,082	(488)
Common stock:				
Mutual funds	-	-	101	(2)
Total	\$ 3,030	\$ (20)	\$ 36,183	\$ (490)
2015				
Bonds:				
U.S. Government and agency obligations States, territories, and possessions	\$ 7,022	\$ (28)	\$ -	\$ -
Corporate securities	3,262	(19)	288	(3)
Mortgage and asset-backed securities	23,095	(288)	1,011	(84)
	13,581	(180)	4,125	(81)
Total	\$ 46,960	\$ (515)	\$ 5,424	\$ (168)

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued)
December 31, 2016 and 2015
(Dollars in Thousands)

2. Investments (Continued)

Other-than-Temporary Impairment Analysis (Continued)

The Company reviews its investment portfolio at least quarterly for securities that may have an other-than-temporary impairment (OTTI) in value. For any investment security deemed to be other-than-temporarily impaired, the investment's amortized cost is written down to fair value with a realized loss recognized in operations. Unrealized losses are primarily due to interest rate fluctuations during the year and as such do not qualify for OTTI as the Company has the ability and intent to hold until maturity or recovery. Based on a review of the bonds included in the table above, the Company determined that the unrealized losses were primarily a result of the interest rate environment and not the credit quality of the issuers. There were no securities impaired in 2016 and 2015.

Other

At December 31, the Company had the following restricted assets:

	Carrying Value 2016	% of Total Admitted Assets	Carrying Value 2015	% of Total Admitted Assets
On deposit with state	\$ 2,298	2.5%	\$ 2,296	2.6%
On deposit with other regulatory agencies	2,268	2.5	2,502	2.9
Pledged as collateral not captured in other categories	14,981	16.5	15,174	17.4
Total	<u>\$ 19,547</u>	<u>21.5%</u>	<u>\$ 19,972</u>	<u>22.9%</u>

Net investment income earned for the years ended December 31 was derived as follows:

	2016	2015
Bonds	\$ 1,672	\$ 1,608
Common stocks	3	-
Cash and short-term investments	-	1
Total investment income earned	<u>1,675</u>	<u>1,609</u>
Investment expense	<u>(768)</u>	<u>(673)</u>
Net investment income earned	<u>\$ 907</u>	<u>\$ 936</u>

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued)
December 31, 2016 and 2015
(Dollars in Thousands)

2. Investments (Continued)

Other (Continued)

Proceeds from sale of bonds during 2016 and 2015 were \$14,612 and \$13,416, respectively. Proceeds from maturity of bonds during 2016 and 2015 were \$1,730 and \$4,561, respectively. Realized gains (losses) on sales of bonds for the year ended December 31 are as follows:

	2016	2015
Bonds:		
Gains	\$ 204	\$ 179
Losses	(38)	(72)
Net realized capital gains	\$ 166	\$ 107

The Company has minor ownership interests in a limited partnership (Archipelago Partners, L.P.). The Company carries this investment at an amount based on its interest in the underlying audited GAAP equity of the investee, with unrealized gains and losses reported in unassigned surplus. The Company did not recognize any OTTI write-down for its investment in the limited partnership during the years ended December 31, 2016 and 2015. The investment is reflected as other invested assets in the accompanying statutory statements of admitted assets, liabilities, and policyholders' surplus.

3. Fair Value Measurements

The following table sets forth by level within the fair value hierarchy all financial assets measured at fair value and their admitted value, in the aggregate, as of December 31:

	Level 1	Level 2	Level 3	Fair Value	Admitted Value
2016					
Bonds	\$ 7,247	\$ 67,416	\$ -	\$ 74,663	\$ 74,859
Mutual funds	101	-	-	101	101
Short-term investments	850	-	-	850	850
Total	\$ 8,198	\$ 67,416	\$ -	\$ 75,614	\$ 75,810

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued)
December 31, 2016 and 2015
(Dollars in Thousands)

3. Fair Value Measurements (Continued)

	Level 1	Level 2	Level 3	Fair Value	Admitted Value
2015					
Bonds	\$ 7,222	\$ 64,264	\$ -	\$ 71,486	\$ 71,928
Short-term investments	2,499	-	-	2,499	2,499
Total	\$ 9,721	\$ 64,264	\$ -	\$ 73,985	\$ 74,427

The carrying value of cash, accrued interest, agents' balances, reinsurance recoverable on paid losses, reserves for losses and loss adjustment expenses, unearned premiums, and other accrued expenses approximates fair value due to the short maturity, short duration, and low interest rate environment of these instruments.

4. Data Processing Equipment

Data processing equipment, included in other assets, consist of the following as of December 31:

	2016	2015
Data processing equipment and software	\$ 1,899	\$ 1,767
Accumulated depreciation	(1,595)	(1,418)
Data processing equipment, net	\$ 304	\$ 349

Depreciation expense related to data processing equipment and software was \$177 and \$109 for the years ended December 31, 2016 and 2015, respectively.

5. Other Assets

Other assets consist of the following as of December 31:

	2016	2015
Guaranty funds	\$ 65	\$ 64
Deductible billed to policyholders	91	110
Data processing equipment	304	349
Receivable from subsidiary	1,657	908
Miscellaneous receivables	11	8
Total	\$ 2,128	\$ 1,439

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued)
December 31, 2016 and 2015
(Dollars in Thousands)

6. Reserves for Losses and Loss Adjustment Expenses

The following table summarizes the activity in the Company's reserves for losses and loss adjustment expenses (LAE), net of reinsurance, for the years ended December 31:

	2016	2015
Net reserves for losses and LAE at January 1	\$ 28,810	\$ 32,680
Incurred related to:		
Current year	19,261	16,364
Prior years	1,976	3,151
Total incurred	21,237	19,515
Paid related to:		
Current year	(5,571)	(5,549)
Prior years	(11,553)	(17,836)
Total paid	(17,124)	(23,385)
Net reserves for losses and LAE at December 31	\$ 32,923	\$ 28,810

Increases in incurred losses and LAE during 2016 and 2015 pertaining to previously reported amounts are the results of unfavorable development in estimates of insured events of previous years.

7. Other Liabilities

Other liabilities consist of the following as of December 31:

	2016	2015
Accrued and deferred compensation	\$ 40	\$ 39
Accrued employee benefits	948	770
Deferred fees	1,765	1,618
Premium taxes, licenses, and fees payable	111	116
Provision for reinsurance	101	106
Miscellaneous liabilities	1,749	2,200
Total	\$ 4,714	\$ 4,849

8. Reinsurance

In the ordinary course of business, the Company seeks to limit its exposure to loss on claims by entering into reinsurance contracts with other insurance companies. The Company utilizes its reinsurance program to cede severe/high-limit losses and to limit yearly aggregate losses in order to protect surplus and maintain conservative operating ratios. Reinsurance contracts do not relieve the Company from its obligations to policyholders. Certain reinsurance agreements contain provisions for premium adjustments based on loss experience with regards to such contracts. Such adjustments are recorded on an accrual basis and are initially settled with reinsurers after the contract period, with annual adjustments thereafter.

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued)
December 31, 2016 and 2015
(Dollars in Thousands)

8. Reinsurance (Continued)

A summary of the current reinsurance contract terms is as follows:

Excess of Loss Treaties

For the years ended December 31, 2016 and 2015, the maximum retained loss for any Professional Liability claim is \$1,650. This maximum is based on a \$2,000 policy limit and reinsurance excess of \$250 placed at 20%. For the years ended December 31, 2016 and 2015, the maximum retained loss for any Employment Practices Liability claim was \$500.

For the contract period from July 1, 2016 through June 30, 2017, the Company entered into a reinsurance treaty that ceded losses in excess of \$250 to a maximum of \$1,750. This treaty was placed at 20%. Losses up to \$750 in excess of \$250 are subject to an annual aggregate deductible (AAD) of 8% of the subject written premium on this treaty. Calculation of AAD amounts are also subject to the 20% placement of this treaty. The premium for this treaty is calculated as a fixed rate multiplied by the subject premium.

For the contract period from July 1, 2015 through June 30, 2016, the Company entered into a reinsurance treaty that ceded losses in excess of \$250 to a maximum of \$1,750. This treaty was placed at 20%. Losses up to \$750 in excess of \$250 are subject to an AAD of 8% of the subject written premium on this treaty. Calculation of AAD amounts are also subject to the 20% placement of this treaty. The premium for this treaty is calculated as a fixed rate multiplied by the subject premium.

For the contract period from July 1, 2014 through June 30, 2015, the Company entered into a reinsurance treaty that ceded losses in excess of \$500 to a maximum of \$1,500. Losses in excess of \$500 are subject to an AAD of 4.5% of the subject written premium on 100% of this treaty. The premium for this treaty is calculated as a fixed rate multiplied by the subject premium.

Loss Ratio Protection

For the contract period from July 1, 2016 through June 30, 2017, the Company entered into a Loss Ratio Protection treaty. This treaty provides coverage up to 25% of subject premium, if aggregate losses exceed 68% of subject premium. This treaty was placed at 80%.

For the contract period from July 1, 2015 through June 30, 2016, the Company entered into a Loss Ratio Protection treaty. This treaty provides coverage up to 25% of subject premium, if aggregate losses exceed 70% of subject premium. This treaty was placed at 70%.

Casualty Contingency and Clash

For claims made and reported to the Company from July 1, 2016 through June 30, 2017, the Company had reinsurance over and above the underlying limits of \$5,000 in excess of \$2,000 for each and every claim. This treaty includes coverage for extra contractual obligations subject to a 10% co-pay.

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued)
December 31, 2016 and 2015
(Dollars in Thousands)

8. Reinsurance (Continued)

Casualty Contingency and Clash (Continued)

For claims made and reported to the Company from July 1, 2015 through June 30, 2016, the Company had reinsurance over and above the underlying limits of \$4,000 in excess of \$2,000 for each and every claim. This treaty includes coverage for extra contractual obligations subject to a 10% co-pay.

For claims made and reported to the Company from July 1, 2014 through June 30, 2015, the Company had reinsurance over and above the underlying limits of \$5,000 in excess of \$2,000 for each and every claim. This treaty includes coverage for extra contractual obligations subject to a 10% co-pay.

For claims made and reported to the Company from July 1, 2014 through June 30, 2015, the Company had Clash Coverage of \$1,500 excess \$500.

Quota Share Employment Practices Liability Insurance

During 2016 and 2015, the Company had in place an Employment Practices Liability Insurance (EPLI) quota share reinsurance agreement whereby 50% of the Company's EPLI business is ceded.

In May 1, 2015 and continuing during 2016, the Company began issuing cyber liability endorsements to its professional liability policies and put in place a 100% quota share reinsurance contract for this coverage. The contract provides for a 30% ceding commission.

Financial Impact of Reinsurance

The effect of reinsurance on premiums written and earned for the years ended December 31 is as follows:

	2016		2015	
	Written	Earned	Written	Earned
Direct premiums	\$ 35,303	\$ 35,276	\$ 35,461	\$ 35,375
Ceded premiums	(4,498)	(4,335)	(5,046)	(5,206)
Net premiums	\$ 30,805	\$ 30,941	\$ 30,415	\$ 30,169

Included in ceded premiums are adjustments for prior year loss sensitive and structured treaties of \$789 and \$1,270 for 2016 and 2015, respectively. The Company's EPLI quota share, cyber quota share and prior year's excess of loss reinsurance agreements also contain a provision to reimburse acquisition costs through a ceding commission. Total ceding commission expense decreased other underwriting expenses by \$437 and \$290 for 2016 and 2015, respectively.

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued)
December 31, 2016 and 2015
(Dollars in Thousands)

8. Reinsurance (Continued)

Financial Impact of Reinsurance (Continued)

Return commission that would have been due reinsurers if all reinsurance were cancelled with the return of unearned premium reserves at December 31 is as follows:

	2016		2015	
	Unearned Premium	Return Commission	Unearned Premium	Return Commission
Ceded	\$ 1,168	\$ 143	\$ 1,004	\$ 95

The effect of reinsurance on losses and LAE incurred and reserved as of and for the years ended December 31 is as follows:

	2016		2015	
	Reserves	Incurred	Reserves	Incurred
Direct	\$ 42,729	\$ 21,182	\$ 41,944	\$ 26,700
Ceded	(9,806)	55	(13,134)	(7,185)
Net	\$ 32,923	\$ 21,237	\$ 28,810	\$ 19,515

9. Policyholders' Surplus

In June 2005, the Company issued surplus notes to Preferred Term Securities XVII, Ltd. and First Tennessee Bank, N.A. in return for \$10,000 in cash. The surplus notes call for the Company to pay quarterly interest at London Interbank Offered Rate (LIBOR) plus 3.15%. The effective variable interest rate at December 15, 2016, was 4.0%.

The accrual of interest and the payments of interest and principal can only be made from surplus and only upon gaining approval from the California Department of Insurance.

Claims under the surplus notes are subordinated and are paid out of any assets remaining after payment of all liabilities, including senior claims and any senior indebtedness of the Company. Unrecorded interest expense of approximately \$17 at December 31, 2016, was expensed and paid in March 2017 upon receipt of approval by the California Department of Insurance for such payment.

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued)
December 31, 2016 and 2015
(Dollars in Thousands)

9. Policyholders' Surplus (Continued)

The following summarizes principal provisions of the notes as of December 31, 2016:

	Par / Carrying Value	Unapproved Principal and Interest	Interest Paid	
			Current Year	From Inception
Issued June 3, 2005 bearing interest at LIBOR +3.15%, due June 3, 2035	\$ 10,000	\$ -	\$ 388	\$ 6,090

The following balances make up unassigned surplus as of December 31:

	2016	2015
Unrealized losses	\$ (3,669)	\$ (2,551)
Nonadmitted assets	(2,337)	(2,510)
Deferred tax asset	6,589	7,008
Retained surplus	29,599	28,351
Total unassigned surplus	<u>\$ 30,182</u>	<u>\$ 30,298</u>

10. Federal Income Taxes

The Company files a consolidated federal income tax return with its wholly owned subsidiary, CSI. The method of allocation between the companies has been formalized in a written tax allocation agreement. Allocation is based upon separate return calculations with current credit given for net losses and/or credits that result in an actual reduction in the tax liability of the consolidated group.

There was no provision for federal income taxes for the years ended December 31, 2016 and 2015.

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued)
December 31, 2016 and 2015
(Dollars in Thousands)

10. Federal Income Taxes (Continued)

The components of the net deferred tax asset at December 31 are as follows:

	2016	2015	Change
Gross deferred tax asset:			
Operating	\$ 7,314	\$ 7,798	\$ (484)
Capital	66	102	(36)
Statutory valuation allowance:			
Operating	-	-	-
Capital	-	-	-
Adjusted gross deferred tax asset:			
Operating	7,314	7,798	(484)
Capital	66	102	(36)
Nonadmitted deferred tax asset:			
Operating	(1,805)	(1,892)	87
Capital	-	-	-
Subtotal net admitted deferred tax asset:			
Operating	5,509	5,906	(397)
Capital	66	102	(36)
Gross deferred tax liabilities:			
Operating	791	892	(101)
Capital	-	-	-
Net admitted deferred tax asset:			
Operating	4,718	5,014	(296)
Capital	66	102	(36)
Total net admitted deferred tax asset	\$ 4,784	\$ 5,116	\$ (332)
Increase in non-admitted tax asset	\$ 87		

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued)
December 31, 2016 and 2015
(Dollars in Thousands)

10. Federal Income Taxes (Continued)

The components of the admissibility calculation at December 31, 2016 by tax character are as follows:

	Operating	Capital
SSAP No. 101 paragraph 11.a:		
Recoverable taxes	\$ -	\$ -
Three year reversals	4,718	66
Admitted asset	-	-
SSAP No. 101 paragraph 11.b:		
Remaining three year reversals	4,718	66
Surplus limitation	5,198	66
Admitted asset	4,718	66
SSAP No. 101 paragraph 11.c:		
Remaining deferred tax assets	2,596	-
Deferred tax liabilities	791	-
Admitted asset	791	-

The components of the admissibility calculation at December 31, 2015 by tax character are as follows:

	Operating	Capital
SSAP No. 101 paragraph 11.a:		
Recoverable taxes	\$ -	\$ -
Three year reversals	5,014	102
Admitted asset	-	-
SSAP No. 101 paragraph 11.b:		
Remaining three year reversals	5,014	102
Surplus limitation	5,123	102
Admitted asset	5,014	102
SSAP No. 101 paragraph 11.c:		
Remaining deferred tax assets	2,784	-
Deferred tax liabilities	892	-
Admitted asset	892	-

The Authorized Control Level RBC computed without net deferred tax assets (ExDTA ACL RBC ratio) at December 31, 2016 is 569%. The adjusted capital and surplus used to determine recovery period and threshold limitations is \$35,094.

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued)

December 31, 2016 and 2015

(Dollars in Thousands)

10. Federal Income Taxes (Continued)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

	2016	2015
Deferred tax asset:		
Discounting of unpaid losses	\$ 730	\$ 520
Unearned premiums	725	734
Deferred compensation	600	550
Advance premiums	269	250
Nonadmitted assets	181	199
Impairments	66	102
Net operating loss carryforwards	4,257	4,905
Other	552	640
Total deferred tax asset	7,380	7,900
Deferred tax assets nonadmitted	(1,805)	(1,892)
Admitted deferred tax asset	5,575	6,008
Deferred tax liability:		
Bond market discount	(56)	(54)
Depreciation	(461)	(496)
Premium acquisition expenses	(269)	(250)
Other	(5)	(92)
Total deferred tax liability	(791)	(892)
Net admitted deferred tax asset	\$ 4,784	\$ 5,116

The change in net deferred income taxes is comprised of the following:

	2016	2015	Change
Deferred tax assets	\$ 7,380	\$ 7,900	\$ (520)
Deferred tax liabilities	(791)	(892)	101
Net deferred tax asset	\$ 6,589	\$ 7,008	(419)
Tax effect of unrealized gains			-
Change in deferred taxes			\$ (419)

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued) December 31, 2016 and 2015 (Dollars in Thousands)

10. Federal Income Taxes (Continued)

The Company's income tax provision differs from the amount obtained by applying the federal statutory rate of 34% to operating gain before federal income taxes as follows:

	2016	2015
Provision computed at statutory rate	\$ 423	\$ 564
Tax-exempt income, net	(2)	(12)
Change in nonadmitted assets	18	61
Other	(20)	(10)
Total statutory income tax expense	\$ 419	\$ 603
Federal income tax expense	\$ -	\$ -
Change in deferred taxes	419	603
Total statutory income tax expense	\$ 419	\$ 603

The Company does not have any income tax paid that would be available for recoupment in the event of future net losses. The Company's federal income tax returns are subject to an examination by the IRS within three years after the returns are filed.

As of December 31, 2016 and 2015, the Company has no uncertain tax positions and, therefore, has not recorded a contingent liability. There were no tax positions for which management believes it is reasonably possible that the total amount of tax contingencies will significantly increase or decrease within 12 months of the reporting date.

As of December 31, 2016, the only material jurisdiction in which the Company is subject to examination is the U.S. federal jurisdiction for the tax years 2013 through the present.

11. Employee Benefit Plans

The Company has a 401(k) defined contribution plan covering substantially all employees. Under the 401(k) plan, the Company matches 50% of employee contributions up to 6% of the employee's salary. Amounts expensed for this plan totaled \$236 and \$222 in 2016 and 2015, respectively.

The Company has a deferred compensation plan which allows senior management to defer all or part of their salary. In 2016 and 2015, no salary was deferred under this plan. Additionally, the Company has a deferred compensation plan for directors that allows members to defer all or part of their fees. In 2016 and 2015, \$126 and \$125, respectively, were deferred under this plan.

On October 21, 2016, the Board of Directors approved a new Supplemental Executive Retirement Plan (SERP), 409A plan. The Company accrued \$91 related to the SERP as of December 31, 2016.

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued) December 31, 2016 and 2015 (Dollars in Thousands)

12. Line of Credit

Effective June 1, 2013, the Company secured revolving line of credit of \$10,000 with Union Bank at a rate of 2.5% with a LIBOR option. This line matured on May 31, 2015 and was extended with the existing terms to May 31, 2018.

The Company maintains pledged bonds with a par value of \$9,993 at December 31, 2016, as security for the line of credit. The outstanding balance on the line of credit at December 31, 2016 and 2015 was \$0 and \$690, respectively.

13. Regulation, Dividend Restrictions, and Risk Based Capital

Regulation

All insurance companies are subject to insurance laws and regulations established by the states in which they transact business. The laws of the various states establish supervisory agencies with broad administrative and supervisory powers related to granting and revoking licenses to transact business, regulating trade practices, establishing guaranty associations, licensing agents, approving policy forms, filing premium rates and setting reserve requirements for certain lines of business, determining the form and content of required regulatory financial statements, conducting periodic examinations of insurers' records, determining the reasonableness and adequacy of capital and surplus, and prescribing the maximum concentrations of certain classes of investments. Most states have also enacted legislation that regulates insurance holding company systems, including acquisitions, extraordinary dividends, the terms of affiliate transactions and other related matters. The Company, its insurance subsidiary and certain other affiliates have registered as a holding company system pursuant to such legislation in California and routinely report to other jurisdictions. It is not possible to predict the future impact of changing state and federal regulation on the operations of the Company and its insurance subsidiary.

Dividend Restrictions

Law and minimum capitalization requirements generally restrict dividends from the Company. The California Insurance Code does not permit the payment of dividends that exceed the greater of net income or 10% of statutory surplus and can only be paid out of accumulated earned surplus without prior approval from the Insurance Commissioner. The Company may pay dividends in 2016 of \$3,030 (10% of the preceding year's surplus) or \$1,659 (preceding year's net income) without prior regulatory approval.

Risk Based Capital

A model for determining the risk based capital (RBC) requirements for property and casualty insurance companies was adopted in December 1993. Insurance companies are required to report their RBC ratios based on their most recent annual statement. The Company has calculated its RBC requirement based on its most recently filed Annual Statement and has \$30,339 of capital and surplus in excess of any regulatory action or reporting level.

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued)
December 31, 2016 and 2015
(Dollars in Thousands)

14. Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and short-term investments, bonds, premiums receivable, and reinsurance recoverables on paid and unpaid losses.

The Company places its cash and short-term investments with high credit quality financial institutions. Concentrations of credit risk with respect to bonds are limited, due to the large number of such investments and their distribution across many different industries and geographic regions. The outstanding premiums receivable balance is generally diversified due to the large number of entities comprising the Company's customer base. To minimize its exposure to significant losses from reinsurance insolvencies, the Company evaluates the financial condition of its reinsurers and reinsures its business with highly rated reinsurers.

15. Related-Party Transactions

The Company provides certain administrative services related to professional liability policies brokered through CSI under the terms of a cost sharing agreement. As of December 31, 2016 and 2015, \$1,646 and \$908, respectively, were due from CSI to the Company. Net costs allocated from the Company to CSI for the years ended December 31, 2016 and 2015, were \$5,921 and \$5,801, respectively.

16. Commitments and Contingencies

The Company is subject to guaranty and other assessments by the states in which it writes business. The Company does not have an accrued liability for a guaranty fund or other assessments, as fees are prepaid by the Company and surcharged to policyholders in subsequent years.

The Company is subject to various claims and lawsuits arising in the normal course of business. The Company is not aware of any outstanding and/or unresolved extra contractual obligations and bad faith losses stemming from lawsuits that could have a material impact on its operations.

The Company has a lease agreement for its home office in San Mateo, California. The lease extends through 2020 and may be extended an additional five years, to 2025. The Company also has a remote office in Atlanta, Georgia. The lease extends through 2019 and may be extended for an additional five years to 2024. Effective May 16, 2016, the Company entered into a subleasing arrangement for this office.

Rent expense for all leased properties for the years ended December 31, 2016 and 2015, was \$980 and \$997, respectively. Rent expense in 2016 was reduced by \$36 collected from the Atlanta office sublease.

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued)
December 31, 2016 and 2015
(Dollars in Thousands)

16. Commitments and Contingencies (Continued)

Future minimum lease payments at December 31, 2016, under agreements classified as operating leases with noncancelable terms in excess of one year, are as follows:

	<u>Home Office</u>	<u>Atlanta Office</u>	<u>Total Obligations</u>
2017	\$ 887	\$ 61	\$ 948
2018	908	62	970
2019	935	21	956
2020	963	-	963
Total	<u>\$ 3,693</u>	<u>\$ 144</u>	<u>\$ 3,837</u>

On June 30, 2011, the Company entered into a sale-leaseback transaction with software valued at \$483 and furniture, fixtures, and equipment valued at \$442. The transaction was made at the book value of the assets and no gain or loss was recorded. The operating lease entered into as part of the transaction requires 36 monthly payments of \$36. At lease termination on June 30, 2014, the Company opted to extend the lease over a ten month period, commencing on June 1, 2014 and ending in March 2015. The Company paid \$0 and \$146 during 2016 and 2015, respectively.

The Company is named as a defendant in various legal actions arising principally from claims made under insurance policies and contracts. Those actions are considered by the Company in estimating the loss and LAE reserves. Management believes the resolution of those actions will not have a material effect on the Company's financial position or results of operations.

17. Subsequent Events

Management of CAMICO has evaluated all events occurring after December 31, 2016 through March 22, 2017, the date the financial statements were available to be issued, to determine whether any events required either recognition or disclosure in the statutory financial statements. No such events were noted.

SUPPLEMENTARY INFORMATION

CAMICO MUTUAL INSURANCE COMPANY

Summary Investment Schedule December 31, 2016

	Gross Investment Holdings	%	Admitted Assets as Reported (*)	%
	<i>(In Thousands)</i>			
Bonds:				
U.S. treasury securities	\$ 7,250	9.3	\$ 7,250	9.3
Non-U.S. government(including Canada, excluding mortgage-backed securities)	78	0.1	78	0.1
Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
States, territories, and possessions				
general obligations	1,263	1.6	1,263	1.6
Political subdivisions of states, territories, and possessions and political subdivisions	844	1.1	844	1.1
Revenue and assessment obligations	5,305	6.8	5,305	6.8
Industrial development and similar obligations	207	0.3	207	0.3
Mortgage-backed securities (includes residential and commercial MBS):				
Pass-through securities:				
Issued or guaranteed by GNMA	86	0.1	86	0.1
Issued or guaranteed by FNMA and FHLMC	7,476	9.6	7,476	9.6
CMOs and REMICs:				
Issued or guaranteed by GNMA, FNMA, FHLMC, or VA	920	1.2	920	1.2
All other	7,195	9.2	7,195	9.2
Other debt and fixed income securities (excluding short-term):				
Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	35,443	45.4	35,443	45.4
Unaffiliated non-U.S. securities (including Canada)	8,792	11.3	8,792	11.3
Equity interests:				
Investments in mutual funds	102	0.1	102	0.1
Other equity securities:				
Affiliated	1,183	1.5	1,183	1.5
Cash, cash equivalents, and short-term investments	914	1.2	914	1.2
Other invested assets	970	1.2	970	1.2
Total invested assets	<u>\$ 78,028</u>	<u>100.0</u>	<u>\$ 78,028</u>	<u>100.0</u>

* The Company did not have any securities lending reinvested collateral as of December 31, 2016.

CAMICO MUTUAL INSURANCE COMPANY

Supplemental Investment Risk Interrogatories December 31, 2016 (Dollars in Thousands)

1. Company's total admitted assets: \$ 90,925

2. Ten largest exposures to a single issuer/borrower:

Issuer	Investment Categories	Amount	Percentage of Total Admitted Assets
Federal Natl Mtg Assn Gtd Mtg Federal Home Loan Mortgage	Unaffiliated bond	\$ 4,325	4.76%
Archipelago Partners	Unaffiliated bond	3,815	4.20%
New York, City of	Other invested asset	970	1.07%
State Street Corporation	Unaffiliated bond	730	0.80%
Wells Fargo & Company	Unaffiliated bond	690	0.76%
Morgan Stanley	Unaffiliated bond	631	0.69%
The Goldman Sachs Group, Inc.	Unaffiliated bond	619	0.68%
The Bank of New York Mellon	Unaffiliated bond	594	0.65%
Ford Credit Floorplan Master	Unaffiliated bond	590	0.65%
	Unaffiliated bond	550	0.60%

3. Amounts and percentages of the Company's total admitted assets held in bonds and preferred stocks by NAIC rating.

	Amount	Percentage of Total Admitted Assets
Bonds:		
NAIC-1	\$ 59,506	65.45%
NAIC-2	14,771	16.25%
NAIC-3	1,431	1.57%

4. Amounts and percentages of the Company's total admitted assets in foreign investments:

Description	Amount	Percentage of Total Admitted Assets
Foreign investments	\$ 7,448	8.19%

CAMICO MUTUAL INSURANCE COMPANY

Supplemental Investment Risk Interrogatories (Continued)

December 31, 2016

(Dollars in Thousands)

13. Amounts and percentages of admitted assets held in the ten largest equity interests are as follows:

Issuer	Amount	Percentage of Total Admitted Assets
Vanguard Marketing Corporation	\$ 102	0.11%

14. Amounts and percentages of the Company's assets held in nonaffiliated, privately placed equities are less than 2.5% of total admitted assets.

15. Amounts and percentages of the Company's assets held in partnership interests are less than 2.5% of total admitted assets.

16. Amounts and percentages of the Company's assets held in mortgage loans are less than 2.5% of total admitted assets. Response to interrogatory 17 is not required.

17. The Company does not have mortgage loans.

18. Amounts and percentages of the Company's assets held in real estate are less than 2.5% of total admitted assets.

19. Amounts and percentages of the Company's assets held in mezzanine real estate loans are less than 2.5% of total admitted assets.

20. The Company does not have any assets subject to securities lending, repurchase, reverse repurchase, dollar repurchase, or dollar reverse repurchase agreements.

21. The Company does not have any warrants not attached to other financial instruments, options, caps, or floors.

22. The Company does not have any assets of potential exposure for collars, swaps, or forwards.

23. The Company does not have any assets of potential exposure for futures contracts.

CAMICO MUTUAL INSURANCE COMPANY

Supplemental Reinsurance Interrogatories

December 31, 2016

(Dollars in Thousands)

1. This Company has not reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g. a deductible, a loss ratio corridor, a loss ratio cap, an aggregate limit, or any similar provisions).

2. The Company has ceded risk through certain reinsurance contracts for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:
 - A contract term longer than two years and the contract is noncancellable by the Company during the contract term;
 - A limited or conditional cancellation provision under which cancellation triggers an obligation by the Company, or an affiliate of the Company, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;
 - Aggregate stop loss reinsurance coverage;
 - A unilateral right by either party to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;
 - A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or
 - Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.

The financial statement impact of these reinsurance contracts is as follows (in thousands):

	As Reported	Interrogatory Reinsurance Effect	Restated Without Interrogatory Reinsurance
Assets	\$ 90,925	\$ -	\$ 90,925
Liabilities	50,743	(5,359)	56,102
Surplus as regards to policyholders	40,182	5,359	34,823
Income before taxes	1,245	(453)	1,698

The Company has the following contracts which meet the criteria in 2: 2008 and 2009 Aggregate Excess of Loss (ASL) reinsurance contracts, and 2010 and 2011 XOL reinsurance contracts. These contracts are placed 100% with Hannover Reinsurance Ltd. (Ireland) except for the 2009 ASL which is placed 75% with Hannover Reinsurance and 25% with XL RE.

The Company's objective in utilizing these treaties was to protect surplus and maintain conservative operating ratios by ceding severe high limit losses and limiting aggregate losses.

CAMICO MUTUAL INSURANCE COMPANY

Supplemental Reinsurance Interrogatories (Continued)
December 31, 2016
(Dollars in Thousands)

3. The Company has not during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), for which during the period covered by the statement it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the Company, or (ii) an association of which one or more unaffiliated policyholders of the Company is a member where:
 - The written premium ceded to the reinsurer by the Company or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or
 - Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the Company or its affiliates.

4. Except for transactions meeting the requirements of paragraph 31 of SSAP No. 62R, Property and Casualty Reinsurance, the Company has not ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) during the period covered by the statutory financial statements, and either:
 - Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles (SAP) and as a deposit under generally accepted accounting principles (GAAP); or
 - Accounted for that contract as reinsurance under GAAP and as a deposit under SAP.